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**PANAMA TRADE AGREEMENTS****Operating Free Trade Agreements (8):**

Chile, Singapore, China (Taiwan), Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua).

**Agreements under implementation (1):**

European Union (all countries are adjusting their local norms)

**Agreements requiring partner's formal sanction (2):**

Canada and United States.

**Limited Commercial Agreements (3):**

Colombia, México and the Dominican Republic

**Agreements under negotiation (1):**

Peru

**Agreements on hold (1):**

Colombia (Free Trade Agreement)

**SOCIAL****Human Development Index rank:**

#60 of 182 countries (2009) -- High Human Development. (Source: UN)

**Population**

3.5 Million (1.8 MM men, 1.7 MM women; 1.8 MM in Province of Panama)

Annual growth rate: 1.6%

**Literacy rate:**

95% (General Lifestyle Survey, 2008. Contraloría General de la República)

**Public spending on education and culture:**

4.6% of GDP (Contraloría General de la República, 2009)

**Life expectancy:**

76 years; 4th highest in Latin America (World Health Organization, year 2008)

**Political and press freedom:**

1.5 (1= most free; 7= least free) (Freedom House)

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# Panama



where the world meets

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## Meet Panama

As the bridge between North and South America and the corridor for East-West trade Panama doesn't just sit at the center of the 21st century global economy, it makes it possible. But Panama has become more than a just pathway for international investment.

With recession-resistant growth powered by a highly competitive economy, a simplified tax structure and world-class physical and financial infrastructure, Panama is an attractive investment destination of its own.

- In the last year, Moody's, Fitch Ratings and Standard & Poor's have all upgraded Panama's sovereign ratings to investment grade.
- The World Economic Forum ranked Panama as the 2nd most competitive economy in Latin America in its Global Competitiveness Report 2010-2011.
- Foreign Direct Investment in Panama doubled from 2004-2009 and it receives the second highest inward stock of Foreign Direct Investment as a percentage of GDP of any country in North or South America.
- Major multinational corporations have increasingly chosen Panama as the location for their regional headquarters.

President Ricardo Martinelli's pro-growth policy focus on long-term macroeconomic stability, fiscal discipline and continued infrastructure modernization is positioning Panama to deliver on the promise of even greater prosperity. Administration policies are supporting continued diversification of the economy which will serve as a buffer against potential future economic shocks.

- The government's demonstrated prudent fiscal management has helped reduce the public sector debt burden to a manageable 45.1% of GDP and it is projected to continue to decline into the future as economic growth and more efficient tax collection continue.
- The expansion of the Panama Canal to accommodate the largest container ships is proceeding under budget and is expected to be completed on time by 2014. It is forecasted to eventually generate an additional \$5 billion in revenue each year.
- The country is also expanding its existing airport, adding a second airport, upgrading Panama City's public transportation systems and improving the Pan-American Highway, creating a multifaceted transport network.

Panama is a vibrant democracy with a dynamic modern economy. It boasts a system of finance, transportation, technology and human capital that leads the region and is among the best in the world. That's why Panama is no longer just where the world's business passes through.

Panama is where the world meets.



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## Panama: Investment Grade

Upon taking office in July 2009, President Martinelli put his administration on a path to secure an investment grade rating for Panama for only the second time ever.

Before the end of his first year in office he introduced and signed into law two major tax reform initiatives which simplified the tax structure, kept rates competitive with those in other countries and increased revenue to maintain fiscal discipline.

The Martinelli Administration also announced a bold and responsibly financed infrastructure modernization plan to promote Panama's emergence as a world-class transportation and tourism hub and further diversifying the economy.

Ratings agencies took note of Panama's progress and over the course of four months in early 2010 Fitch Ratings, Standard & Poor's and Moody's all moved Panama's sovereign rating to investment grade.

**Fitch Ratings:** "Recent tax and fiscal reforms signaled a continuing commitment to fiscal discipline and enhancing the flexibility and quality of public finances," said Theresa Paiz Fredel, Senior Director in Fitch's Sovereign Ratings team... Sustained growth in investment, underpinned by rising domestic savings as well as inflows of foreign direct investment, have supported rapid economic growth in recent years, while increases in real income and employment bode well for private consumption over Fitch's rating horizon. The Panama Canal expansion project and other public works projects will also raise the economy's potential output and sustainable rate of growth." (March 23, 2010)

**Standard & Poor's:** "The ongoing expansion of the Panama Canal, an ambitious public infrastructure investment plan, and an expanding services sector that benefits from the country's emerging role as a regional hub for trade, finance, and transportation will support Panama's growing economic resilience and diversification." (May 25, 2010)

**Moody's:** "The country's economic resilience is strongly supported by a dynamic service-based economy. In recent years, Panama's role as a transshipment and logistics hub between continents and within the Americas has strengthened. Large scale investments, including the widening of the Panama Canal, should ensure strong rates of growth in the medium term. Despite a short track record of fiscal responsibility, Panama's institutional strength benefits from general policy consensus among the major political forces." (June 9, 2010)



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## **The Promise of Greater Growth Through Major Infrastructure Investments**

Panama already boasts a financial infrastructure system that is among the best in the world and a physical infrastructure system that is among the best in Latin America. The quality of its infrastructure helped propel it up the World Economic Forum's Global Competitiveness Report to 53rd in the world and 2nd in Latin America.

President Ricardo Martinelli's administration is undertaking a carefully focused and financed 5-year investment plan to further position the country as an unparalleled trade and logistics center, an attractive tourism destination, and a sustainable exporter of agricultural produce. This \$13.6 billion plan, which holds the promise of drawing in even greater foreign investment and generating hundreds of thousands of new jobs for Panamanians, was a key factor in Panama winning Investment Grade status in 2010.

Key investments in the plan include:

### **Modernizing the Public Transportation System**

A new public transportation system is a long awaited project that will dramatically improve wellbeing and workforce productivity in Panama. It consists of two main investment projects: the Metro (rail) and the Metrobus systems.

- The Urban Metro system is the biggest project in value terms. It will involve a \$1.5 billion investment for its first 14 km line, which will connect the Albrook bus terminal with high population areas in the center Panama City.
- The partnership "Consortio Linea 1" (integrated by the Brazilian firm Norberto Odebrechet and the Spaniard FCC) was awarded the construction contract on November 26th, 2010.
- The new bus system will provide 1,200 new buses to service the Panama City area under a 15-year concession investment contract for \$269 million, which was awarded to the partnership Consortio Masivo de Panama (integrated by the Colombian firm Fanalca and the Panamanian Felgate enterprises).

### **Strengthening Value for Tourists**

Panama already hosts dozens of international meetings, conferences and events. While it has a growing supply of hotel rooms and a convention center, to further attract major international events it needs to expand and modernize its hosting facilities.

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- The Panama Tourism Authority is developing an urban planning and architectural design concept for a new Panama Convention and Exhibition Center
- Thanks to the Tax Information Agreement recently signed with the United States, U.S. corporations can take tax deductions on conferences they carry out in Panama, which serves as a further incentive to investors.

The modernization of existing airports and the construction of new ones throughout Panama will benefit the development of both the logistics and tourism sectors of the economy.

- A new Enrique Malek International Airport (\$27.5 million) is under construction in David, Chiriqui, and is estimated to be completed by November 2011.
- Other key projects include the transformation of the Enrique Jimenez International Airport in Colón (\$60 million), which is in its preliminary study and construction phase, and the feasibility analysis for another airport in Panama's Central Provinces

### **Deepening Competitiveness in Commercial Logistics**

The country is improving its road infrastructure to facilitate access to local and international markets. Improved access not only reduces production costs but it also tends to trim down prices and security risks in domestic consumption.

- The Infrastructure investment plan includes \$210 million for a 15km extension of the Madden-Colón highway to provide an effective road link between the country's principal cities of Panama and Colón.
- The extension of the Cinta Costera highway, which runs parallel to the Pacific coastline in Panama City is a \$352 million project that will help reduce commute time in one of the city's most congested areas.
- The extension of the North Corridor Highway is a 10km, \$112 million extension project that will help workers from the eastern sector of Panama participate in the metropolitan labor market.

### **Stimulating the Agricultural Sector**

Even though Panama is well positioned as an important provider of services, its agricultural industry is still vital for employment in rural communities and to the country's food security.

- The Government will invest \$50 million for a fully developed Cold Chain that consists of several components which could cover 70% of perishable production by 2020.

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- New irrigation systems will require an investment of \$254.2 million. This project will serve the strategic agricultural production areas in Chiriquí, and the central provinces.

### **Improving Social Well-Being**

Panama will expand and deepen its health system by constructing new health care facilities across the country. These will include 5 new hospitals in key geographical locations (Darien, Colón, Los Santos, Veraguas and Chiriquí) at an investment of \$358.2 million.

- These hospitals will be allocated as turn-key projects that take account of the design, construction, equipment, and financing of each facility.

A consistent focus of public and private investment in security has made Panama one of the safest countries in the region; a feature that has helped to boost the number of foreign visitors by an average of 11% over the last 4 years.

- A \$207 million investment to revamp the penitentiary system will include the construction of correctional facilities in the provinces of Panama, Colón and Chiriquí for a total investment of \$52 million. The main prison complex will be located east of the province of Panama and will require \$155.6 million in investment.

### **Providing a Talented Labor Force that Meets Market Needs**

Key public institutions in the education sector are making a coordinated effort to help the Panamanian labor force orient itself to the needs of strategic boosters of economic development.

- Public investment in the restoration and construction of new schools across the country will amount to \$39 million. This investment includes the acquisition of practice laboratories and computer equipment.
- Under a partnership with Microsoft, the Ministry of Education is training teachers with modern computers applications that will help their students increase their competitiveness.
- INADEH and SENACYT, which are other public educational institutions, have also invested to modernize the resources available to educate Panamanians in state of the art skills and trades.
- To complement these investments, important parallel efforts have been made to reform the academic curriculum plus add a universal scholarship program to help all students as well as improve class attendance and the quality of the educational system in general.



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## **Panama's Promise Is Leading the World's Top Companies to Relocate**

Panama's central geographic location, highly competitive economy and financial and physical infrastructure are just a few of the reasons the world's leading companies are relocating their corporate or regional headquarters to Panama. Companies like 3M, Dell, Caterpillar, P&G and LG are also attracted to the promise of Panama's future as it creates a world-class logistics network, implements a simplified tax regime, invests in further educating its workforce and continues to grow its economy.

Some of the competitive advantages offered to companies relocating to Panama include:

### **Competitive & Transparent Tax System**

- Under tax reforms proposed and signed into law by President Martinelli, Panama's corporate tax rate was cut to 25% – among the most competitive in the region.
- Panama passed Law No. 41 which states that licensed Multinational Corporate Headquarters that provide services to entities domiciled abroad and don't generate taxable income within Panama will therefore be exempt from Panamanian corporate income taxes.

### **Highly-Rated Financial System**

- Panama ranks #1 in Latin America in 4 of the 9 categories in the World Economic Forum's 2010 Global Competitiveness report: availability of financial services, affordability of financial services, ease of access to loans and venture capital availability.
- Panama ranks in the top 10 in the world in two of those categories: affordability of financial services (#4) and soundness of banks (#7).
- The World Economic Forum identified Panama's rankings in 7 of the 9 categories of financial market development as competitive advantages for the country.
- Panama's dollarized economy lowers risk for investors and eliminates the inconvenience and cost of currency exchange.

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### Unparalleled Logistics Access

- Panama has the largest port system in Latin America with private ports in both the Atlantic and Pacific oceans.
- With a \$100 million expansion of Tocumen International Airport under way, COPA Airlines is offering over 134 daily flights to 45 destinations in 31 countries.
- Panama became the preferred center for the installation of five submarine optical fiber cables, turning into the ideal location for telecommunication companies and data centers since we have the advantage of offering great connectivity with North and South America, Europe, Asia and the Caribbean. These are advantages companies have learned to use effectively, such as MCI, Cable & Wireless and Movistar which offer cellular services and high quality internet to the international market.

### Business-Friendly Immigration Regime

- *Temporary Personnel.* Panama has a new immigration system that easily accommodates the personnel of any multinational headquarters based in Panama who are visiting for 3 months or less on business related to the company.
- *Permanent Personnel.* Panama has also developed a visa specifically for management of executive-level personnel for up to 5 years.



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## Free & Highly Competitive: Panama's Dynamic Economy

While other countries have struggled during the recent global recession, Panama's democracy and free market economy have demonstrated their resilience. Panama completed another peaceful transition of power in 2009 with the election of Ricardo Martinelli as president. The country also was recognized as worthy of Investment Grade bond ratings and the World Economic Forum's ranking as the 2nd most competitive economy in Latin America. Below are just a few of the highlights of Panama's global and regional rankings for freedom and economic competitiveness:

### **1.5 - Most Free**

Freedom House's 2010 Freedom in the World combined score of Panama's political and civil liberties system.

### **#1 – for Financial Freedom In Latin America**

According to the 2010 Index of Economic Freedom, Panama's financial freedom score of 70.0 is tied with two other countries for the best in Latin America and is more than 20 points higher than the world average.

### **#1 – for Port Facilities in the Western Hemisphere**

Panama ranked first in the Western Hemisphere and 11th in the World for the quality of port facilities, according to the World Economic Forum's Global Competitiveness Report 2010-2011.

### **#1 – in Latin America for Availability of Venture Capital**

The World Economic Forum's Global Competitiveness Report 2010-2011 ranked Panama number one in the region, and third in the Western Hemisphere behind Canada and the U.S., for availability of venture capital.

### **#1 – for Air Transport Facilities in Latin America**

Panama ranked 1st in Latin America and 24th in the world for the quality of its air transport facilities, according to the World Economic Forum's Global Competitiveness Report 2010-2011.

### **#2 – among Most Competitive Economies in Latin America**

The World Economic Forum's Global Competitiveness Report 2010-2011 ranked Panama number two in the region based on infrastructure quality, increased macroeconomic stability and technological readiness.

### **#3 – for Business Freedom in Latin America**

Panama ranks behind only 2 other countries in Latin America for business freedom according to the 2010 Index of Economic Freedom. Panama's business freedom score of 75.9 is more than 10 points higher than the world average.

### **#4 – in the World for Affordability of Financial Services**

Panama ranked fourth in the world and first in the Western Hemisphere for the affordability of financial services, according to the World Economic Forum's Global Competitiveness Report 2010-2011.



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## PANAMA ANNOUNCES NEW AD CAMPAIGN TO RAISE PROFILE OF STABLE, COMPETITIVE ECONOMY WITH U.S. INVESTORS

*"Panama: Where the World Meets" Ads Tout Investment Grade Rating in WSJ, Online Launch*

Today the Republic of Panama is launching a new advertising campaign designed to highlight the country as an attractive investment destination for U.S. investors by contrasting continued instability in international markets with Panama's stable, growing and highly competitive economy. The first phase of the "Panama: Where The World Meets" campaign is being launched with full page ads in the *Wall Street Journal*, *Politico* and *Roll Call* newspapers and across a spectrum of online news sites promoting the country's upgrade to an Investment Grade rating this year.

"Panama's dollar economy, our infrastructure, our simplified tax structure and of course our location make us a great and attractive place for new investments and global economic development," said Ricardo Martinelli, president of the Republic of Panama, in an introductory message on the campaign's website, [www.meetpanama.com.pa](http://www.meetpanama.com.pa).

Panama was rated as the 2<sup>nd</sup> most competitive economy in Latin America by the World Economic Forum's Global Competitiveness Report 2010-2011. It's expected to almost double its GDP between 2009 and 2010 and the International Monetary Fund projects that Panama will have the fastest growing economy in Latin America by 2015.

During his first year in office, President Martinelli led a major tax reform effort that simplified structures and cut corporate rates and began implementing a 5-year, \$13.6 billion infrastructure investment plan that will significantly modernize and diversify Panama's strong logistics capabilities. The combination of those factors led to an upgrade in Panama's sovereign debt rating to Investment Grade.

The first phase of the "Panama: Where the World Meets" campaign will run through the first quarter of 2011 with placement in a broad range of financial media outlets throughout the U.S.

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Distributed by HDMK, LLC on behalf of the Republic of Panama. Additional information is on file at the Department of Justice, Washington DC.

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I need a safe port in this storm.

Rising debts, shaky governments, overextended banks and credit crises have made international investing unpredictable and downright risky.

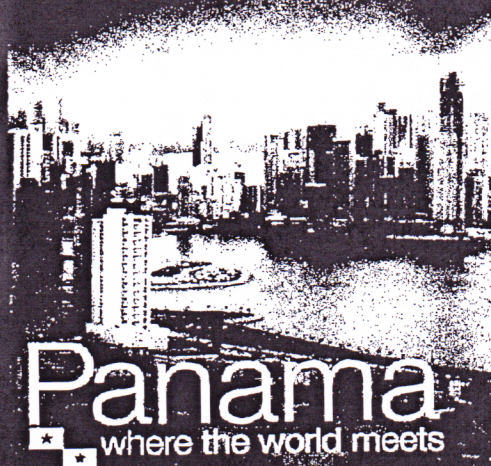
But, I found a stable partner - Panama.

An ambitious infrastructure investment program, simplified tax structure, a growing economy - and the dollar currency further reduces risk.

And investors agree. Fitch and S&P both raised Panama's Sovereign Rating to investment grade.

Moody's also upgraded Panama's bond rating to investment grade, saying "The anticipated positive impact of fiscal policy initiatives on government accounts and prospects for sustained economic growth are at the core of the upgrade."

Panama - Prosperity and Promise



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**Panama**  
where the world meets

Exclusively with USG and Panama Canal Authority  
Authorized agent: 2010-10-10 with the Department of State, Washington, D.C.

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**Speech by Ricardo Martinelli**  
**President of the Republic of Panama**  
**As prepared for delivery to the U.S. Chamber of Commerce**  
**December 16, 2010**

Thank you, President Donohue, for the generous offer to host me today. As someone who has built and run a business, I have the highest respect for the ideals that the U.S. Chamber of Commerce stands for and how hard you fight to nurture and protect those ideals.

To my friends in the U.S. corporate community who do business in Panama, let me also add a word of thanks. We are making great progress in transforming our country into a globally competitive economy. The investments you have made in Panama – the good jobs you have provided for our people – are playing a critical role in that progress.

We believe that the policies we are implementing and the improvements we are undertaking will create prosperity for our people and deliver on the promise of Panama. I'm here to talk to you today about how those policies and improvements are making Panama an even more attractive trading partner for the U.S. and why the completing the U.S.-Panama Trade Promotion Agreement now is so important.

I know you are here today because you already know a few things about Panama and you have already put considerable effort into making the U.S.-Panama Trade Promotion Agreement a reality. But there have been a lot changes since I took office last year and as Panama's Marketer-in-Chief, I wouldn't be doing my job if I didn't take the opportunity to brag a little bit.

As the rest of the world's economies struggle with the global recession, Panama's economy is not only humming along – it's practically roaring.

We had positive GDP growth in 2009 of 3.2% and that number will very nearly double this year to a figure above 7%. The IMF estimates that Panama will have the fastest growth rate in the Latin America and Caribbean region by 2015.

Panama attracted almost as much Foreign Direct Investment in the first six months of 2010 as we did in all of 2009 -- \$1.2 billion dollars through June of this year compared to \$1.8 billion through all of last year.

The reasons why foreign investment is flowing into Panama and our economic growth is so strong are very clear:

Panama has one of the freest and most competitive economies in Latin America. The 2010 Index of Economic Freedom, an important assessment of economic liberty around the world, assessed that Panama ranked with only two other countries as offering the most financial freedom in Latin America.

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Panama has a world-class financial infrastructure. According to the World Economic Forum's Global Competitiveness Report, Panama has ranks fourth in the entire world -- and first in the western hemisphere -- for the affordability of financial services. That same report ranked Panama as 7<sup>th</sup> out of nearly 140 countries evaluated for the soundness of our banks. Panama also ranked first in Latin American -- and third in the western hemisphere behind the U.S. and Canada -- for the availability of venture capital.

Finally, Panama offers unmatched logistics capabilities. Of course, you know about the Canal. Our current expansion is proceeding under budget and on track to be completed on time in 2014. But you may not know that Panama also boasts the highest quality port facilities in the Western Hemisphere, according the World Economic Forum.

Panama was also rated first in the Latin America and twenty-fourth in the world for the quality of our air transport facilities. Given the geostrategic location of our country, this first rate infrastructure offers companies in Panama an unparalleled advantage.

Panama has worked very hard to achieve this progress and our people are proud of what we have done together. But as you all know very well, the twenty-first century global economy is very dynamic. If you take too much time to stop and pat yourself on the back, someone else will pass you by.

To achieve the level of prosperity we desire and position ourselves to deliver on the promise our country holds, we have begun implementing a set of pro-growth policies and strategic investments to build on the progress we have made.

The first thing my administration did after taking office was to put our fiscal house in order. Tax reform in Panama was long overdue -- and many felt it wasn't even politically possible. But we rolled up our sleeves and got it done in less than a year.

We cut taxes. The new corporate tax rate in Panama -- 25% -- is lower than the average rate for Latin America and the OECD and lower than the global average as well. In fact, Panama has the third lowest rate in all of North and South America.

We simplified taxes. Panama used to have five income tax brackets. We now have two.

We modernized our tax system. Our tax reform law outsourced delinquent tax collection, updated I.T. systems, and enhanced internal controls in the Panamanian IRS to ensure more efficient revenue collection.

We undertook these reforms to establish long-term macroeconomic stability and attract even greater foreign investment. These were also important first steps toward a long-term goal of mine: a flat rate across Panama's taxes.

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These tax reforms were also necessary to ensure we had the revenue and access to credit to undertake a major strategic investment in further developing our country's infrastructure.

As you've heard me say, Panama already has an infrastructure network that few can match. Using that as a basis for greater growth, my administration has announced an ambitious plan to invest \$13.6 billion over the next 5 years to turn Panama into a highly diversified economy that not only leads the globe in trade and logistics, but is also an attractive tourism destination and a sustainable exporter of agricultural produce.

We are modernizing our public transportation system with new Metro and Metrobus lines to reduce congestion and improve efficiency in Panama City, our main economic hub.

We are expanding our main airport, building two new airports and exploring the feasibility of adding yet another.

We are investing nearly \$700 million to extend three major highways in Panama to better link our cities, improve access for our workers to new job opportunities and reduce congestion.

We are investing in new irrigation systems to stimulate agricultural production as well as developing a Cold Chain to ensure more perishable food can get to market.

Once complete, these investments will dramatically strengthen Panama's global economic competitiveness and create incredible opportunities for greater prosperity for our people.

The combination of pro-growth tax reform and this ambitious infrastructure investment plan earned us another accolade we are quite proud of: Investment Grade ratings for our sovereign debt – one of only 3 throughout Latin America with such a rating.

This past spring, Fitch, Moody's and S&P all upgraded Panama's rating to Investment Grade which will allow us stay on a path to responsibly manage our finances while making the investments necessary to further strengthen our economy.

Fitch Ratings put it this way: "Recent tax and fiscal reforms signaled a continuing commitment to fiscal discipline and enhancing the flexibility and quality of public finances...the Panama Canal expansion project and other public works projects will also raise the economy's potential output and sustainable rate of growth."

The path my administration has set the country on is critical if we are going to deliver on the all the promise that Panama holds. But it is not only important to create economic opportunities for our people. It is at least as important to invest in their social well-being also. This is particularly true in a country and region where the adoption of democratic

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government and market economics is still relatively new -- and not entirely beyond the threat of aggressively-marketed socialism that plays on the jealousy, fear and need.

That is why my administration is also making it a priority to ensure we have a workforce that is healthy, educated and motivated to participate in our growing economy.

The \$13 billion investment plan I mentioned also includes building seven new hospitals in key geographic locations across Panama to significantly improve access to quality healthcare for our people.

During my first year in office we raised the minimum wage and eliminated geographic minimum wage disparities within Panama.

When I want to get applause from a business audience I tell them we cut taxes. When I want them to quiet down, I tell them we raised the minimum wage.

Raising the minimum wage may seem counter to the other pro-growth initiatives of my administration. But I have run a successful business that relied on entry-level labor in Panama. I can tell you that for our country it is an absolutely vital step to draw more workers into the formal economy and create the pathway for migration into the middle class that is so important for our long-term growth and stability.

Finally we have also continued to ensure that our labor laws are consistent with international standards, taking care to comply with requirements of the International Labor Organization.

We have articulated a positive vision for making the most of the promise of Panama and put the country on a path to realize it. We have done that for ourselves and for the prosperity of our people. But in doing so, we have also made ourselves an even more attractive partner for our friends and allies like the United States.

That is one reason I am here today: because I believe the changes we are making in Panama make the Trade Promotion Agreement with the U.S. an even better deal for both countries.

The infrastructure investments I've identified today will create incredible opportunities for American firms once the TPA is finalized to compete in selling everything from heavy equipment to engineering services.

The U.S. already runs a trade surplus with Panama and our appetite for imports will grow as our economy continues to grow. But as an example, in 2008 U.S. exporters paid almost \$200 million in tariffs on those exports. TPA would eliminate most of those tariffs and keep U.S. goods and services competitive with those of other countries, protecting good jobs here when they are needed most.

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Because of our growing prominence as a global leader in trade and logistics, TPA would also create new opportunities for U.S. companies -- especially small and medium enterprises -- that usually only export to one country. Through a TPA with Panama, these American firms could have access to an entire region through Panama's logistical network and free zone legislation. Panama strategic position could become a platform for them to reach many other countries and markets with no tariff barriers.

These developments have emerged in greater detail as my administration begins implementing our plans to grow Panama's economy and they make the timing of finalizing TPA even better now.

The other development that led me to want to come speak with you today was the emerging political consensus on trade within the U.S. The timing may be better to finalize our agreement than ever before.

President Obama, to his credit, has been focused on creating new economic opportunities for Americans by expanding U.S. exports. His administration recently announced it had completed a deal to conclude the U.S.-South Korea Trade Promotion Agreement and I congratulate him for it.

He also will work with a new Congress next year. While the president is probably not interested in being congratulate for that, it does appear from the outside to present a new opportunity to push deals like the U.S.-Panama Trade Promotion Agreement across the finish line.

With the campaign over, the language I hear and read from both major parties in Washington now seems focused on working together to achieve tangible accomplishments that help grow the U.S. economy and save and create jobs.

With the strength of Panama's economy and the reforms and investments we are undertaking to propel our country even further, the U.S.-Panama TPA can be important deliverable for the president and new Congress with immediate results. You here in this room are proof of the benefits of strengthening the economic ties between our two countries.

For our part, we will continue to work closely with Congress and the president to complete this deal as soon as possible. As I told the president when we met in New York in September: We're ready when you are, Mr. President.

We will also continuing making the case about what a good investment Panama is for U.S. businesses.

I'm proud to announce to you that today Panama is beginning a new ad campaign in the U.S. targeting the business and investment community with important information about the prosperity and promise of Panama.

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We've branded the campaign as "Panama – Where the World Meets" to highlight the central role Panama increasingly plays in global trade and logistics. If you open today's Wall Street Journal, Roll Call or Politico you will see the first of many of these ads and you will find them in key outlets online as well.

I will ask to you keep working hard at this as well. I know you have done significant work to get this agreement where it is today and on behalf of Panama I want to thank you once again. But with the changes we are making in Panama this is an even greater opportunity to support economic growth in the U.S. and the timing may be better than ever before. So please renew your efforts to build support for finalizing this agreement now.

Thank you.

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## **Economic Opportunity & Strategic Ties: The U.S.-Panama Trade Promotion Agreement**

On June 28th, 2007, after 10 rounds of negotiations, the U.S. and Panama signed a Trade Promotion Agreement (TPA). Since that time Panama has ratified the TPA and signed a Tax Information Exchange Agreement (TIEA) with the U.S. Having taken those important steps, the Martinelli and Obama Administrations now are working closely with leaders in the U.S. Congress to finalize this agreement.

With Panama's growing economy, this agreement represents an enormous opportunity to create excellent new business opportunities for American and Panamanian companies and strengthen the long-standing partnership between the two countries.

### **Fortifying a Geostrategic Partnership**

- Panama has major ports on both the Atlantic and Pacific, and fully 5 percent of world trade passes through the Panama Canal. With a stable democracy, dollarized market economy and deep historic ties, Panama continues to be a close ally of the U.S. in a key part of the world.
- In 2009, the U.S. had a trade surplus with Panama totaling \$4.3 billion, the eighth largest trade surplus maintained with any U.S. global trading partner
- The U.S. is Panama's largest trading partner, accounting for 39.2% of its exports and 29.7% of its imports. Exports accounted for 28% of Panama's GDP growth in 2009.
- Panama is a major destination for U.S. Foreign Direct Investment (FDI), attracting more than \$7.8 billion in U.S. FDI in 2009.
- Panama is a top destination for U.S. retirees. Of the 50,000 U.S. citizens estimated to own second homes in Panama in 2008, 25,000 were U.S. retirees.

### **Expanding Trade and Business Opportunities**

- Panama is undertaking one of the most significant public works projects in the world with a \$5.2 billion expansion of the Panama Canal. The project is currently under budget and on schedule for completion in 2014 at which time it will double the Canal's capacity.

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- The Canal expansion will allow for vessels twice the size of the current Panamax ships, aiding the transit of larger U.S. military ships and enhancing productivity, reliability and efficiency of a vital U.S. trade route.
- 15% of all U.S. trade passes through the Panama Canal each year. 70% of all cargo and 56% of all vessels transiting the Canal have a U.S. origin or destination.
- If approved, the TPA will grant U.S. firms ready access to the Panamanian market and the chance to compete in selling everything from heavy equipment to engineering services in a rapidly growing infrastructure development market.

### Leveling the Playing Field

- The World Bank has reported that Panama has an average weighted tariff of 7% while the U.S. had previously eliminated its tariffs on imports from Panama through previous regional trade initiatives. In 2008, U.S. exporters paid over \$170 million in tariffs for goods exported to Panama.
- U.S.-Panama TPA will eliminate trade barriers between the two countries and facilitate the cross-border movement of goods and services, with particular value for U.S. farmers and businesses.
- Once approved, the TPA will eliminate tariffs on 88% of U.S. consumer and industrial exports to Panama with the remaining tariffs phased out over 10 years. It will also immediately eliminate tariffs on 50% of U.S. agricultural exports to Panama.
- TPA will also create new opportunities bring is for U.S. companies – especially small and medium enterprises -- that usually only export to one country. Through a TPA with Panama, these American firms could have access to an entire region through Panama's logistical platform and free zone legislation. Panama strategic position could become a platform for them to reach many other countries with no tariff barriers.

The U.S.-Panama Trade Promotion Agreement represents an enormous opportunity for both countries to deliver tangible economic benefits while reinforcing their close historic and strategically valuable relationship.

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## **Tax Reform to Support Prosperity and Invest in Progress**

In his first year in office, President Martinelli delivered on a key commitment by proposing and signing into law a major reform of Panama's tax code. These reforms support continued economic prosperity by enhancing the country's competitiveness. They also position Panama to make even greater progress by investing more than \$13 billion over the next 5 years in the infrastructure necessary to create jobs, stimulate growth and foster sustainable development. Finally, the Martinelli tax reforms serve as the first step toward a long-term goal of creating a flat rate for all major taxes in Panama.

Highlights of the 2010 tax reforms include:

### **Simplified Taxes**

- The calculation of income tax for individuals was made easier and ensured that individuals are taxed according to their ability to pay. The number of income brackets were reduced from 5 to 2 (The first US\$11K of income is exempt; rates of 15% for income between US\$11K and \$50k, and 25% for income over US\$50K)
- Taxes became far easier to estimate, pay, and audit through the elimination of most personal income tax such as the basic allowance, SMEs, exempt income, educational insurance, dependants, and foreign income (excluding medical expenses, interest on mortgages up to US\$15K, pension funds and basic deductions for joint returns).

### **Increased Government Revenues**

- When combined with reduced expenditures, these reforms will generate more tax revenue by modifying dividends taxes and operational permit fees nationally and in the Colon Free Zone, increasing tobacco and casino taxes, closing real estate loopholes, and modifying the rate paid for bank licenses
- These increased revenues have reduced projections for Panama's public debt to under 30% of GDP over the next 10 years, which was among the decisive factors in Panama's ratings upgrade to Investment Grade by Moody's, Fitch, and Standard & Poor's.

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### **Continued Panamanian Competitiveness**

- In 2010, the World Economic Forum's Global Competitiveness Index ranked Panama as the most competitive economy in Latin America. The Martinelli tax reforms were designed to maintain that leadership by ensuring taxes were on par with or lower than countries competing for investment.
- The corporate tax rate was cut to 25%. Companies in the business of banking, power generation and distribution, cement manufacturing, telecommunications, insurance and reinsurance, and casinos will pay 25% beginning in 2014.

### **Met Government Promise To Make Advances in Fiscal Management**

- Created a tax administrative tribunal, implemented fiscal printers at retail locations, created auditor training programs, outsourced delinquent tax collection, updated IT systems, and enhanced internal controls in the Panamanian IRS.

### **Rating Agencies' Reviews Of Panama's Tax System:**

- Moodys: "Recently introduced tax measures are the cornerstone of a government's fiscal plan that aims at generating fiscal surpluses and reducing public debt to 36% of GDP by 2014, from current levels of 45%. The authorities are complementing such measures with a complete overhaul of the tax administration system."
- S&P: "Strong economic growth, steady and increasing revenue from the canal (especially after the canal expansion is finished in 2014), recently implemented tax reforms, and efficiency improvements in tax administration and collection should provide the government with ample resources to fund its ambitious investment plans without eroding its fiscal flexibility or reversing the decline in its debt burden over the medium term."
- Fitch: "The approval of modifications to Panama's tax code in September 2009, in the midst of the worst economic slowdown since 2001, as well as the approval of a second round of tax reforms in March 2010, sends a positive signal about the government's commitment to sustainable fiscal policies. In addition, these tax reforms should reduce the government's reliance on debt financing of its planned investment program."

The 2010 tax reforms established simplified and effective fiscal policies while maintaining the competitiveness of key sectors of the economy. They serve as the cornerstone of Panama's projection that it will double the size of its economy over the next 10 years.

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## Panama Snapshot

### ECONOMY

**GDP (current):**

\$24.3 Billion (2009)

\$25.8 Billion (2010 est.)

**GDP (annual growth rate):**

3.2 % (2009)

6.2 % (2010 est.)

6.7 % (2011 est.)

The International Monetary Fund projects that Panama will have the 6th fastest growth rate in 2010, the 2nd in 2011 and the 1st in 2015, in the Latin America and Caribbean region.

**Unemployment (open):**

5.2% (2009)

4.7% (2010 est.)

**Inflation:**

4.3% (Jan-Nov 2010)

**Public sector debt:**

\$11.4 billion or 44% of GDP (2010 est.)

**External debt:**

\$10.1 billion or 39.1% of GDP (2010 est.)

**Imports (goods):**

\$15.5 billion (2009)

\$6.1 billion (first half of 2010)

Main imports are oil derivatives, nondurable consumer goods and raw intermediate goods. Main partners are the USA (27.2%), Costa Rica (4.9%), and México (4.6%)

**Imports (services):**

\$2.2 billion (2009)

\$1.2 billion (first half of 2010)

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**Exports (goods):**

\$11.6 billion (2009)

\$4 billion (first half of 2010)

Main exports are fish, banana, watermelons and pineapples. Main partners are the USA (40%), Europe (32%), and China (4%).

**Exports (services):**

\$5.4 billion (2009)

\$2.8 billion (first half of 2010)

Main exports are tourism and Panama Canal services.

**Foreign Direct Investment:**

\$1.8 billion (2009)

\$1.14 billion (first half of 2010)

FDI grew at a rate of 26% (first half of 2010 vs. first half of 2009)

**INDUSTRY****Competitiveness rank (World Economic Forum):**

#58 out of 134 countries (2008)

#59 out of 134 countries (2009)

#53 out of 134 countries (2010)

Panama is now the 2nd most competitive country in Latin America.

**Panama Canal:**

\$1.5 billion in income from operations or a growth rate of 7.9% (2009)

**Tourism:**

3.5 million passengers (2009) for an annual growth rate of 10.5%. Spending by visitors grew 5.3% for a total of \$1.5 billion (2009).

**RAISING PANAMA'S INVESTMENT GRADE****Fitch's rating:**

Upgraded from BB+ / positive perspective to BBB-/ positive perspective

**Moody's rating:**

Upgraded from Ba1 to Baa3 / stable outlook

**S&P rating:**

Upgraded from BBB- to BB+ / outlook stable